

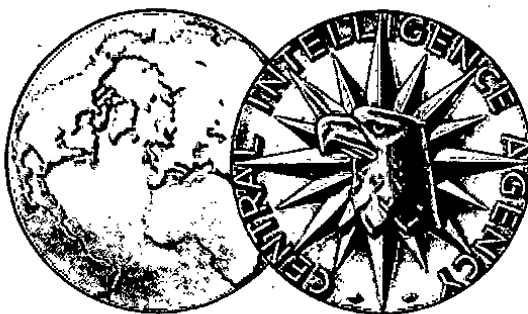
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# WEEKLY SUMMARY



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H I G H L I G H T S

The long-delayed conclusion of the Soviet-Chinese treaty, which has been awaited since Mao Tse-tung went to Moscow two months ago, revealed little that was not anticipated. Leaving aside the strong likelihood that the treaty contains secret and unpublished provisions, the announced agreement gives the USSR; in effect, three years in which to make progress toward translating Soviet influence in China into Soviet control (see page 9). One immediate result of the treaty announcement will be to strengthen the Stalinist faction of the Chinese Communist Party in its opposition to the nationalistically-inclined Chinese Communists.

The present concern of the Yugoslav Government over its foreign exchange problem has considerable validity. Yugoslav dollar resources have dropped so low as to cut off the purchase of certain US raw materials, a fact which will result in the serious curtailment of some Yugoslav industries unless relief is found (see page 5). This situation has been created in large part, however, by the way in which the Tito regime has spent its foreign exchange, and recurrent foreign exchange crises can be expected unless present policy is modified.

As relations between India and Pakistan continue to be seriously strained, an outbreak of hostilities between the two countries remains a distinct possibility (see page 8). The focal point of tension is currently centered around East Pakistan, where communal rioting broke out last week. Meanwhile, UN progress toward settlement of the Kashmir dispute still looks unlikely, and the other issues dividing the two countries remain unresolved.

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**SECRET****W E S T E R N   E U R O P E****GERMANY**

**Berlin Economy**     The intermittent harassment of Berlin traffic by the USSR will achieve much of the effect of a genuine blockade without the fanfare and drama of the original Soviet effort to cut off that city. Industrial production in Berlin will be gradually depressed, and exports from Berlin to West Germany will diminish if Soviet interference with transportation continues. Because of the general uncertainty regarding the status of Berlin, financial interests will become increasingly reluctant to invest in commercial or capital enterprises. Irregular and time-consuming deliveries of raw materials to Berlin and similar difficulties in shipping finished goods from Berlin to West Germany will raise production costs and threaten to cause Berlin products to be "priced out" of the West German market. In this situation, for which the German Federal Government apparently can see no solution, public confidence in the viability of the economy of the former German capital will be further reduced. Meanwhile, the USSR is building a railway around the outskirts of Berlin which is scheduled for completion by May of 1950. When this railroad is finished, traffic between the eastern and western parts of the Soviet Zone need no longer cross the western sectors of Berlin. Thus, rail traffic in the Soviet Zone of Germany will be invulnerable to allied economic counteraction in the event of further Soviet restrictions on Berlin's transportation outlets to West Germany.

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**FRANCE**

**Socialist Policy**      Socialist withdrawal from the Bidault Cabinet poses no immediate threat to the present regime. The Socialists are not yet prepared for early general elections and consequently are not likely to take any action in Parliament which would precipitate a crisis leading to the eventual dissolution of the Assembly and hence to new elections. On the other hand, the Socialists probably believe that the moment has arrived when being outside the Government would place them in a stronger position to appeal to labor and build up their electoral strength. The Socialists also consider it all the more opportune to withdraw from the Government at this time because the Communist Party, by adopting a more militant attitude in defense of political objectives, has lessened the attraction of the General Confederation of Labor. Moreover, an improvement of the Socialist Party's bargaining position would strengthen the appeal of the Force Ouvriere as the labor confederations take advantage of the return to collective bargaining to launch new membership drives.

**ITALY**

**Trade Policy**      The increasing orientation of Italian trade and commercial policies toward Germany, rather than France, is reflected in Italy's opposition to Western European economic arrangements which exclude Western Germany. This trend toward a return to prewar trade alignments with Germany is encouraged by the complementary nature of the Italian-German economies. Already this trend has made the Franco-Italian Customs Union proposal a dead issue, and Italy is showing reluctance to participate

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**ITALY**

in multilateral FINEBEL (France, Italy, Netherlands, Belgium, Luxembourg) trade agreements unless Western Germany is included. Italy has also expressed considerable enthusiasm for the ECA proposals for the integration of Western Europe, with which it is assumed Western Germany will be associated.

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## E A S T E R N   E U R O P E

## YUGOSLAVIA

Foreign Exchange    The present concern of Yugoslav officials over the country's foreign exchange situation, pointed up by disclosures that the 1949 trade balance shows a greater deficit than expected and by statements that the Yugoslav standard of living must decline if international loans are not soon forthcoming, reflects the genuinely difficult problem with which the Tito regime is currently confronted. Despite the substantial progress made by Yugoslav agriculture and industry since the war and the fact that current production exceeds prewar levels, the standard of living is still below prewar. Because Yugoslav dollar resources are now so low as to prevent the purchase of certain raw materials which can at present be bought only from the US, certain segments of Yugoslav industry face serious curtailment, at least temporarily, if the import program is not promptly carried out. To a considerable degree, however, this situation has been created by the way in which the Yugoslavs have spent their foreign exchange. By concentrating heavily upon the purchase of production equipment, the Tito regime has found itself short of exchange with which to buy raw materials. Moreover, this practice has retarded the availability of consumers goods in Yugoslavia, thus slowing the improvement in living standards. Without modification of this policy, Yugoslavia is certain to face recurrent foreign exchange crises.

Even though Tito's political position in Yugoslavia appears to be stronger now than ever before, the continuing strain put upon the country by Soviet harassment is considerable. Yugoslav resources must be diverted to

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**SECRET****YUGOSLAVIA**

the maintenance of sizeable security and military forces, and the Yugoslav people must be called upon to make incessant efforts to support the Government's industrial program. Unless Yugoslavia's economic development can relieve this strain, the Tito regime's stability will be adversely affected.

**RUMANIA**

**Strategic Canal** In assigning top priority to the construction of a canal linking the Danube with the Black Sea near Constanta, the USSR is less concerned with economic benefits than it is with the strategic advantages derived from establishment of a Soviet naval installation midway between Odessa and Istanbul. Although other canal projects throughout the Satellite area have much more economic usefulness, work on them is not being expedited, and all available Rumanian earth-moving equipment has been concentrated on the Danube project. The canal would have only such limited economic benefits as: (1) bypassing the mouth of the Danube where silting requires continuous dredging; (2) irrigation of undeveloped areas of the Dobruja; and (3) shortening the distance from the upper Danube to the Black Sea by 125 miles. (The canal will not, however, shorten the distance to Odessa, the destination of most traffic currently originating from the Danube.) On the other hand, the canal would open Lake Tasaul to Soviet naval units as a base from which to patrol both the Danube and the Black Sea.

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N E A R E A S T - A F R I C A

PALESTINE

Israeli-Arab Talks      After negotiating for more than two months, Israel and Jordan have still to reach agreement on any of the issues which divide them, even though attempts to obtain a comprehensive peace settlement have been tacitly dropped in recent weeks in favor of discussions on the Jerusalem issue alone. Although both states would like to announce a Jerusalem agreement in order to forestall the establishment by the UN of an international trusteeship over the city, two issues are blocking progress in the talks. The first is Israel's continuing demand for sovereignty over a corridor leading to Hebrew University on Mt. Scopus--a concession which Jordan is extremely reluctant to grant inasmuch as such a corridor would cut across the only satisfactory road between Jordan and north-central Palestine. The second major obstruction in the talks is the reluctance of Abdullah's Palestinian Arab advisers to grant Israel sovereignty over the Jewish section of the Old City now under Jordan's control. Success in the negotiations will, consequently, depend largely on Israel's willingness to accept something less than full sovereignty over the Mt. Scopus corridor and on King Abdullah's willingness to grant concessions unpalatable to his recently acquired and increasingly influential Palestinian officials. The only factor favoring success of the negotiations, and possibly the most important in the long run, is the obvious reluctance of both Israel and Jordan to break them off.

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**INDIA - PAKISTAN**

**Tension Continues**      Relations between India and Pakistan continue seriously strained, the focal point of tension this time being located in the area in and about East Pakistan. During the past week, serious communal rioting, followed by small-scale migrations of minority groups across the border, took place in Calcutta (India), Dacca (East Pakistan), and elsewhere. Although the provincial and central governments of both countries showed considerable energy in combatting lawlessness, feeling among many elements of the populace remains high. Other manifestations of hostility between India and Pakistan have subsided somewhat as both sides await the outcome of UN consideration of the Kashmir dispute. UN progress toward the settlement of that dispute still appears unlikely, however, and the other matters of contention between the two countries remain equally unsolved. An outbreak of open hostilities between India and Pakistan therefore remains a distinct possibility.

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F A R E A S T

**Sino-Soviet Pact** By concluding an ostensibly benevolent treaty with the Chinese Communists, the USSR has obtained a three-year period of grace in which to tighten its grip on Communist China. The treaty will at once confute the "imperialists" outside China and conciliate internal opposition to the Communist regime. By not immediately relinquishing control over Dairen, Port Arthur, and the Manchurian railways, however, the USSR will maintain control of strategic assets in China, while continuing to advance the process by which Soviet influence in China becomes Soviet control. The USSR can be expected to gradually strengthen its grip on the Chinese Communist Party apparatus, on the armed forces, on the secret police, and on communications and informational media. One immediate result of the treaty will be the strengthening of the Stalinist faction of the Chinese Communist Party for action against the rather sizeable bloc of nationalistic Chinese Communists.

INDONESIA

**Unification Trends** Less than two months after the birth of the United States of Indonesia, five of the sixteen member "states" have voted to surrender their powers to the federal government and a similar move is being considered by at least four others. As a result of this trend, all of the separate states on Java and all but one on Sumatra will be liquidated. The reduction in the number of cumbersome administrative structures will have several advantages over the federal system conceived at the recent Hague conference. The limited number of trained administrators in Indonesia can

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**INDONESIA**

be more efficiently utilized, and the elimination of numerous large and expensive local staffs will lessen the Government's financial burden. Moreover, such a system would help eliminate the rivalries between local administrators, thereby reducing political instability and fostering a growing sense of Indonesian national consciousness.

**CHINA**

**US Lives in Danger**      Americans in Shanghai may soon be in serious danger as a result of a Communist decision to dismantle and disperse the greater part of the city's power-generating equipment, a move which may lead to increased unemployment and widespread public disorders. The Communists are apparently taking this drastic step in order to safeguard valuable equipment which they can neither shield from Nationalist air attack nor replace from their own resources. This action will further curtail industrial activity and result in a marked deterioration of economic conditions, which are already critical. This added dislocation, particularly if coupled with further damaging air raids, may be disastrous to the city's population. Communist propaganda insists that the Nationalist air attacks have been actively supported by the US, and the rising wrath of Shanghai's distressed population might be directed against the city's American community, now numbering more than 600. This increased risk to the personal safety of Americans in Shanghai may soon require accelerated efforts for an emergency evacuation.

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**PROSPECTS FOR TRIESTE AGREEMENT**

Although Italo-Yugoslav arrangements currently being made for informal talks on the Trieste question are unlikely to lead to formal negotiations in the early future, conditions for a settlement of this controversial issue have improved greatly during the past year.

The principal obstacle to early bilateral agreement on Trieste remains the necessity for mutual compromises which probably neither Italy nor Yugoslavia can afford to make at this time. Yugoslavia, for example, has shown no indication that it is willing to give up the major portion of the Free Territory's Yugoslav zone. In fact, during the past year, Yugoslavia has moved progressively toward de facto incorporation of its zone into Yugoslavia and the forthcoming Yugoslav zone elections will probably be used by Tito as support for Yugoslav claims to the area.

On the other hand, the Italian Government is virtually committed to support the Tripartite Declaration of 20 March 1948 calling for the return of the entire Free Territory of Trieste to Italy. Nationalist feeling with regard to Trieste is so intense, both in Italy and the Italian zone of Trieste, that any agreement now which ceded the major part of the Yugoslav zone to Yugoslavia might produce a grave political crisis in Italy.

Although neither government can afford to make substantial concessions at this time, both countries, particularly Yugoslavia, are increasingly anxious to remove Trieste as an obstacle to the development of more friendly relations. As Cominform pressure on Yugoslavia increases, Tito has for practical reasons become more eager to develop closer ties

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with Italy and is taking the initiative now in the belief that the Western Powers might support his claims. In addition, Tito may believe that he could achieve more favorable terms from bilateral negotiations with Italy; he may further believe that such negotiations would enhance the prestige of the Tito regime.

Meanwhile, in Italy official appreciation is growing of the value to Italian security of a Titoist rather than a Cominformist Yugoslavia and, correspondingly, of the value to Italy of making reasonable concessions to Tito to assist him in maintaining his position. The Government may, therefore, increase its efforts to educate the Italian people along these lines and create an atmosphere which would permit a gradual rapprochement with Yugoslavia on the issue of Trieste.

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